MET

MICHIGAN EDUCATION TRUST

ANNUAL REPORT 2003-2004

Plan D

For additional copies, please
contact the MET office at:

1-800-MET-4-KID
(1-800-638-4543)

(517) 335-4767

www.met4kid.com

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JAY B. RISING
STATE TREASURER

September 2005

Dear MET Participants:

We are pleased to present the fiscal year 2003-04 Annual Report for the Michigan Education Trust (MET). By law, an actuarial evaluation must be performed annually to determine MET's ability to pay future benefits. The actuarial report prepared by PricewaterhouseCoopers L.L.P. for contracts purchased after 1995 (referred to in this Annual Report as Plan D contracts) as of September 30, 2004 is available on-line at www.met4kid.com.

The MET Board of Directors also conducts an annual review of MET's financial status. The tuition increase assumptions, investment rate of return assumptions, and the investment portfolio are adjusted as necessary to assure continued soundness of the program.

Your investment in your beneficiary's higher education is applauded. If you have not yet purchased full four-year contracts, we encourage you to consider additional purchases this fall. The 2006 enrollment period began September 1, 2006. MET will continue to partner with you to meet your college investment goals.

On behalf of the MET Board of Directors we thank you for participating in the MET program and encouraging your beneficiaries to pursue postsecondary education. Please feel free to call the MET office with any questions or concerns you may have at (800) MET-4-KID (638-4543) or (517) 335-4767 in the greater Lansing area. You may also reach us online at www.met4kid.com.

Sincerely,

Jay B. Rising
MET Chairman
State Treasurer

Robin R. McMillan
Executive Director
Michigan Education Trust

MET BOARD AND LEADERSHIP

A nine-member Board of Directors administers the Michigan Education Trust (MET) program. Board members are responsible for policy development, investment initiatives, program development and implementations. The Governor, on advice and consent of the Senate, appoints MET Board members, who represent expertise in business, academics or finance. The State Treasurer, Jay B. Rising, serves as Chairperson. Robin McMillan, Executive Director, serves as liaison to the MET Board of Directors and administers MET operations.

MICHIGAN EDUCATION TRUST BOARD OF DIRECTORS

MR. JAY B. RISING
State Treasurer
MET Chair

MR. ROBERT A. BOWMAN
MET President
President & CEO, MLB Advanced Media, L.P.

MR. THOMAS P. SULLIVAN
MET Vice President
President, Cleary College

DR. MICHAEL RAO
President, Central Michigan University

MS. PAULA CUNNINGHAM
President, Lansing Community College

MR. LON SCHNEIDER
Superintendent, Manton School District

MR. TAYLOR SEGUE, III
Attorney, Howard and Howard

MS. KATHLEEN SCHMALTZ
Freelance Television Broadcaster

MS. STEPHANIE M. WILKINSON
Certified Public Accountant, Port Huron School District

THE MET PROGRAM

MET was established pursuant to Public Act 316 of 1986 as Michigan's guaranteed tuition program. MET is a "qualified tuition program" under Section 529 of the Internal Revenue Code which provides tax exemption for the trust and tax exemption of earnings (through 2010) for contract participants who use MET funds to pay for qualified higher education expenses.

MET allows parents, grandparents, businesses and others, to make contributions, at the current rate of tuition for a child to attend any Michigan public college in the future. Michigan is the first state in the nation to enact legislation for a prepaid tuition program. Today, all 50 states have established similar prepaid or college savings programs.

MET CONTRACT AMENDMENTS

During the 2003-04 and 2004-05 fiscal years, the MET Board of Director's approved the following five amendments to provide additional flexibility for MET participants. The two amendments enacted during the 2004-05 fiscal year are included in this report to save the cost of a separate mailing. These amendments modify your existing MET contract(s). A copy of these amendments should be kept with your records for future reference.

Amendment of Section 2 of Full Benefits and Limited Benefits Contracts:
Payment of Contact/Billing Hour Fees

Until changed in 2003-04, the MET contract did not allow payment of contact/billing hour fees to community colleges.

The Board approved an amendment to Section 2 of all Full Benefits and Limited Benefits contracts to permit payment of course specific fees for Beneficiaries attending a Michigan community college, to the extent that the Beneficiary's Out-of-District tuition and fees don't exceed Average Tuition Cost. This resolution was effective July 21, 2004, for requests for payments received after that date.

> Amended language, Section 2 (d) MET Full Benefits and Limited Benefits Contracts:
>
> (d) The Beneficiary must meet the Public Educational Institution's residency requirements to be eligible for that institution's In-State Tuition Rate. The Beneficiary is responsible for the difference between the In-State Tuition Rate and Out-of-State Tuition rate. If the Beneficiary attends a Community College, MET will pay, as appropriate, the In-District Tuition Rate or the Out-of-District Tuition Rate, and contact or billing hour charges (to the extent the Out-of-District Tuition Rate and contact/billing hour charges do not exceed the Average Tuition Cost).

Amendment of Section 3 of Full Benefits, Limited Benefits Contracts and Community College Contracts: Reduced Early Payoff Option

Until changed in 2003-04, the MET contract did not allow a reduced early payoff option to monthly purchasers.

The Board approved an amendment to Section 3 of all MET contracts authorizing the Executive Director and MET staff to provide a reduced early payoff amount to monthly contract purchasers upon request. The purchaser is required to submit a written request for a reduced early payoff amount. This resolution was effective July 21, 2004, for early payoff requests received after that date.

> Amended language, Section 3 (k) of Full Benefits, Limited Benefits and Community College Contracts:
>
> (k) Full Payment Option: As long as the Purchaser has not lost the opportunity to make monthly purchases under Section 3 (j), the Purchaser may pay the Contract in full by submitting all unpaid Monthly Purchase Amounts to MET. If the Purchaser pays the entire balance due more than one year before the final payment is due, MET will provide the Purchaser an early payment discount. The Purchaser is required to submit a written request for a reduced early payoff amount. MET will base payoff amount on the date the payoff is expected to be received.

MET CONTRACT AMENDMENTS

Amendment of Section 7 of Full Benefits, Limited Benefits and Community College Contracts: Deferral of Annual Refund Payments

Until amended in 2003-04, the MET contract required the release of any unused refund amount to the refund designee.

On July 21, 2004, the Board amended Section 7 of all MET contracts to permit Beneficiaries to request the deferral of annual refund payment. This allows a Beneficiary the option to defer the release of any unused balance to the refund designee and instead, add the refund to the funds available in the upcoming academic year. The option to defer can be exercised annually to extend the refund period, but not to exceed the nine (9) year limit to use educational benefits as stated in the MET contract. This resolution was approved July 21, 2004, for requests to defer terminated refunds received after June 1, 2004.

Amended language, Section 7 (c) (1) of Full Benefits and Limited Benefits Contracts:

> (c) (1) a refund under subsection (a) (1) or (a) (5) (iii) shall be made to the Beneficiary's Higher Education Institution to pay Tuition and Mandatory Fees. However, the total amount paid shall not exceed the maximum refund due. MET will pay the Refund Designee any portion of the refund remaining on August 15 of the fourth year following the last full Academic Year before the refund commenced, unless deferred by the Beneficiary in writing.

Amended language, Section 7 (c) (2) (ii) of Full Benefits and Limited Benefits Contracts:

> (c) (2) (ii) any balance remaining after paying Tuition for an Academic Year shall be paid at the end of the Academic Year to the Refund Designee unless deferred by the Beneficiary in writing;

Amended language, Section 7 (c) (2) (iii) of Full Benefits and Limited Benefits Contracts:

> (c) (2) (iii) or any annual installment not paid to a Higher Education Institution during the year shall be paid at the end of the Academic Year to the Refund Designee unless deferred by the Beneficiary in writing;

Amended language, Section 7 (c) (2) (ii) of Community College Contracts:

> (2) (ii) any balance remaining after paying Tuition for an Academic Year shall be paid at the end of the Academic Year to the Refund Designee unless deferred by the Beneficiary in writing;

Amended language, Section 7 (c) (2) (iii) of Community College Contracts:

> (2) (iii) or any annual installment not paid to a Higher Education Institution during the year shall be paid at the end of the Academic Year to the Refund Designee unless deferred by the Beneficiary in writing;

Amendment of Section 7 of Full Benefits and Limited Benefits Contracts:
Termination of contract after the one-halfway point (Limitation of Right to Terminate)

Until amended in 2004-05, the MET statute did not allow termination of a contract for a refund once the Beneficiary earned more than one-half the credit hours required for a baccalaureate degree (usually 60) at a Michigan public university.

Following the amendment of the MET statute in 2004-05, the Board amended Section 7 (f) of the MET Full Benefits and Limited Benefits contracts. This resolution was effective October 27, 2004, for requests to terminate received after that date.

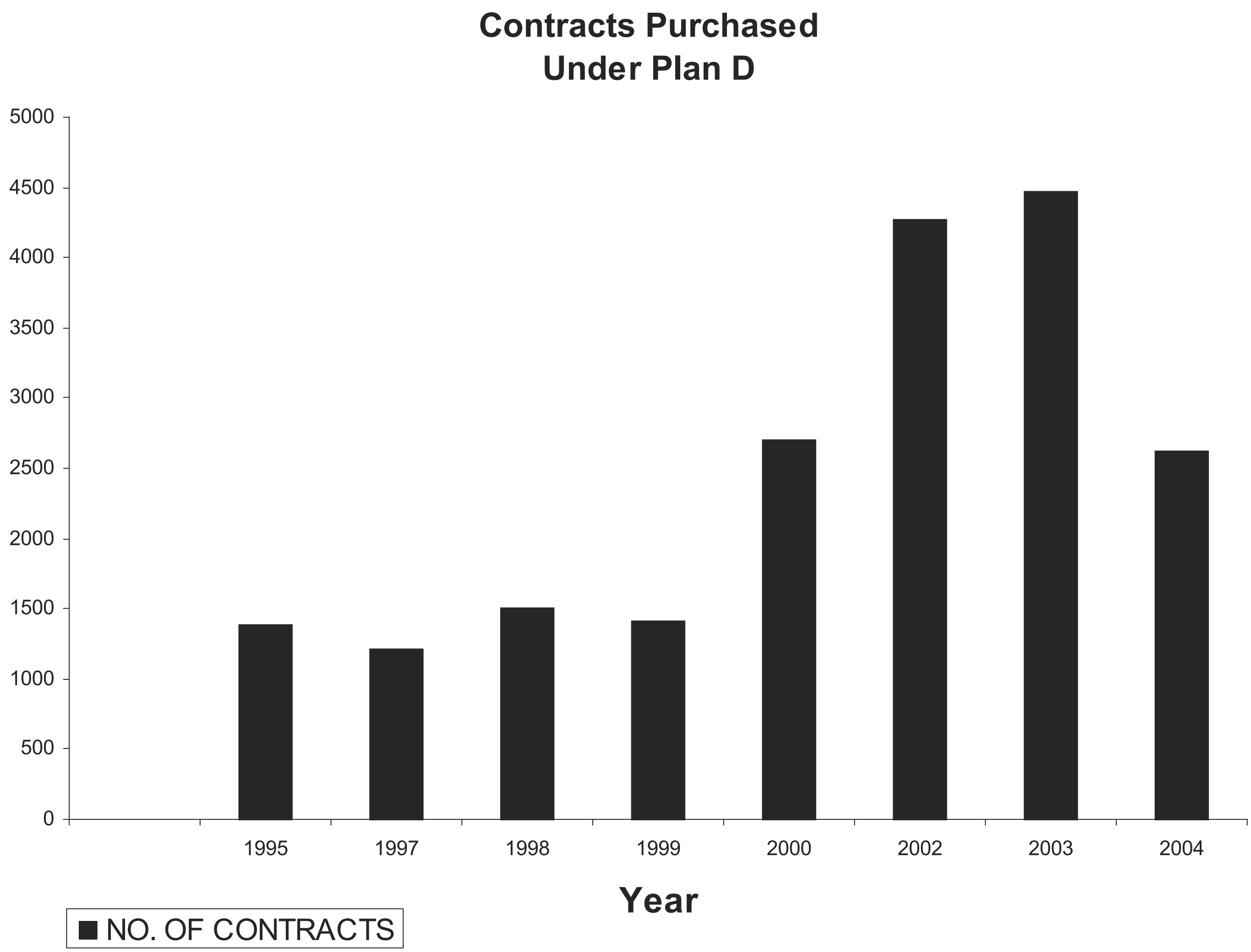
> Amended language, Section 7 (f) of Full Benefits and Limited Benefits Contracts:
>
> > (f) Limitation of Right to Terminate and Receive a Refund: Termination of this Contract and payment of a refund will be restricted if the Beneficiary has completed more than one-half (1/2) of the credit hours required by the Beneficiary's State Institution of Higher Education for the awarding of a baccalaureate degree. The Contract can be terminated for a refund payable to a Higher Education Institution as defined in this Contract. Any terminated refund amount not paid to a Higher Education Institution is forfeited. This subsection shall not, however, preclude a graduate of a Community College, who has not enrolled in a State Institution of Higher Education from terminating a Contract.

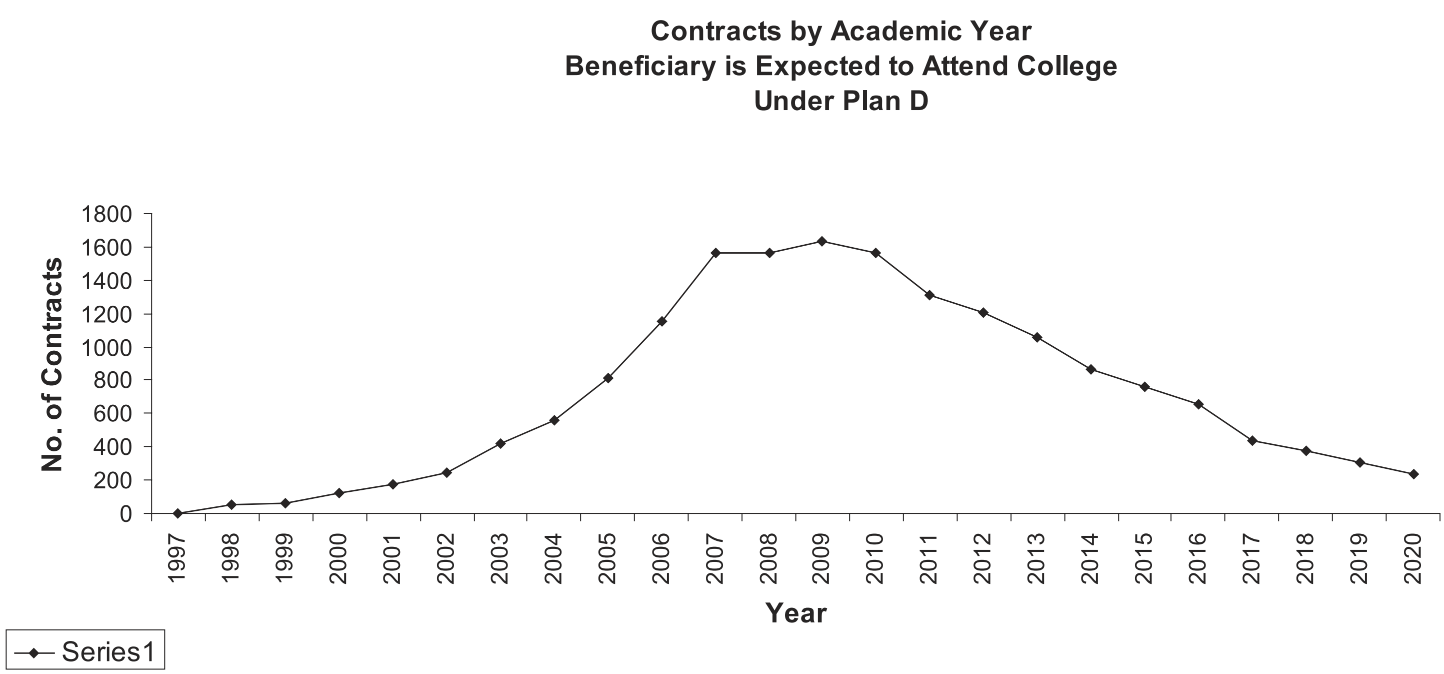
Amendment of Section 6 of Full Benefits and Limited Benefits Contracts:
Transfer of educational benefits after the one-halfway point (to immediate family members)

Until amended in 2004-05, the MET statute did not allow transfer of educational benefits once the Beneficiary earned more than one-half the credit hours required for a baccalaureate degree (usually 60) at a Michigan public university.

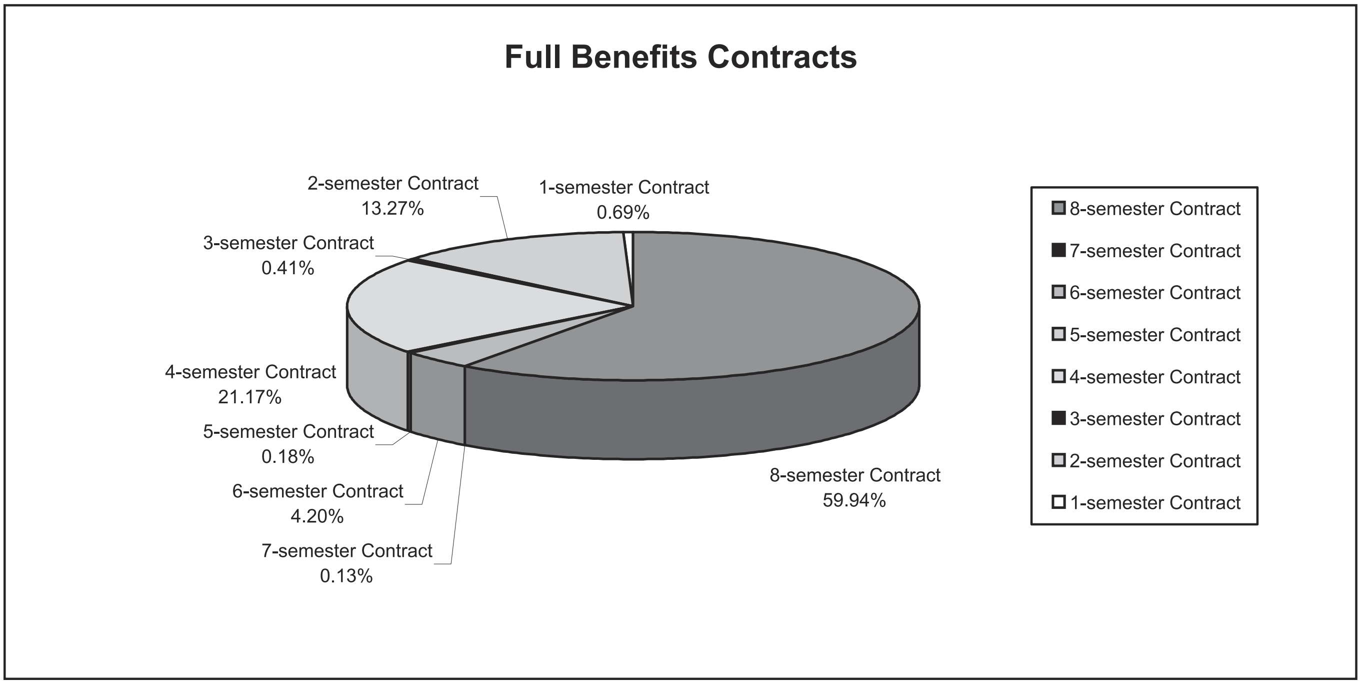
Following the amendment of the MET statute in 2004-05, the Board amended Section 6 (c) of the MET Full Benefits and Limited Benefits contracts. This resolution was effective May 4, 2005, for requests to transfer received after that date.

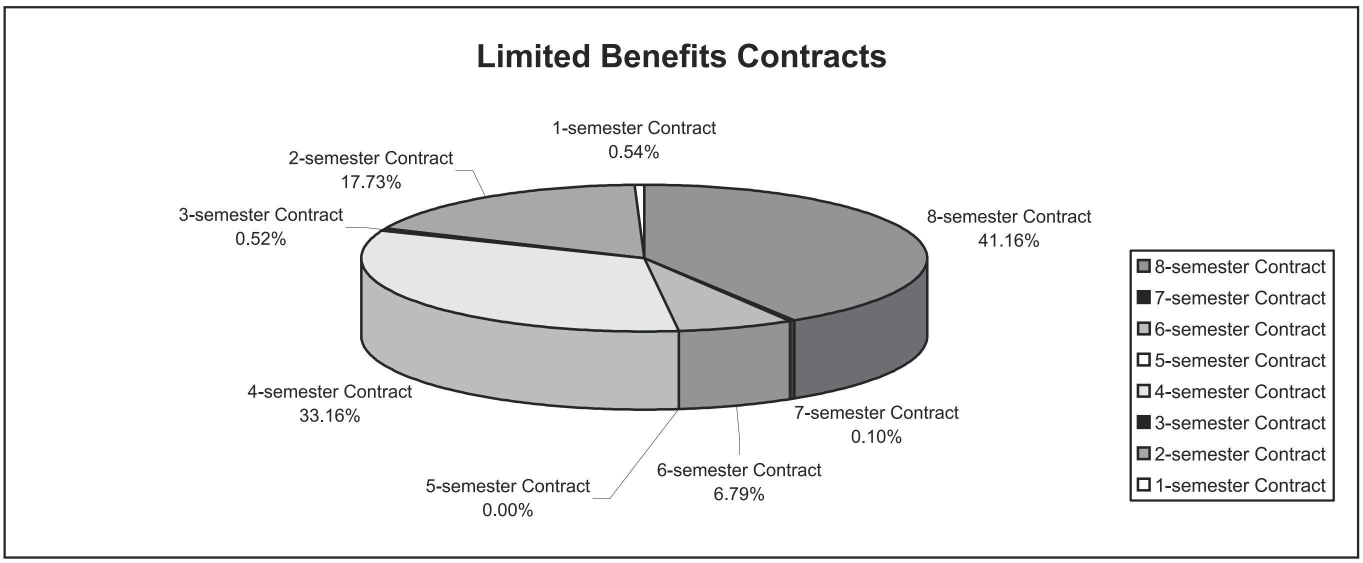
> Amended language, Section 6 (c) of Full Benefits and Limited Benefits Contracts:
>
> > (c) After the Beneficiary has earned more than one-half (½) of the credit hours required for the awarding of a baccalaureate degree at the Beneficiary's State Institution of Higher Education, transferred educational benefits may only be used at a Public Education Institution or the contract terminated for a refund payable only to a Higher Education Institution. No other use or refund is permitted.

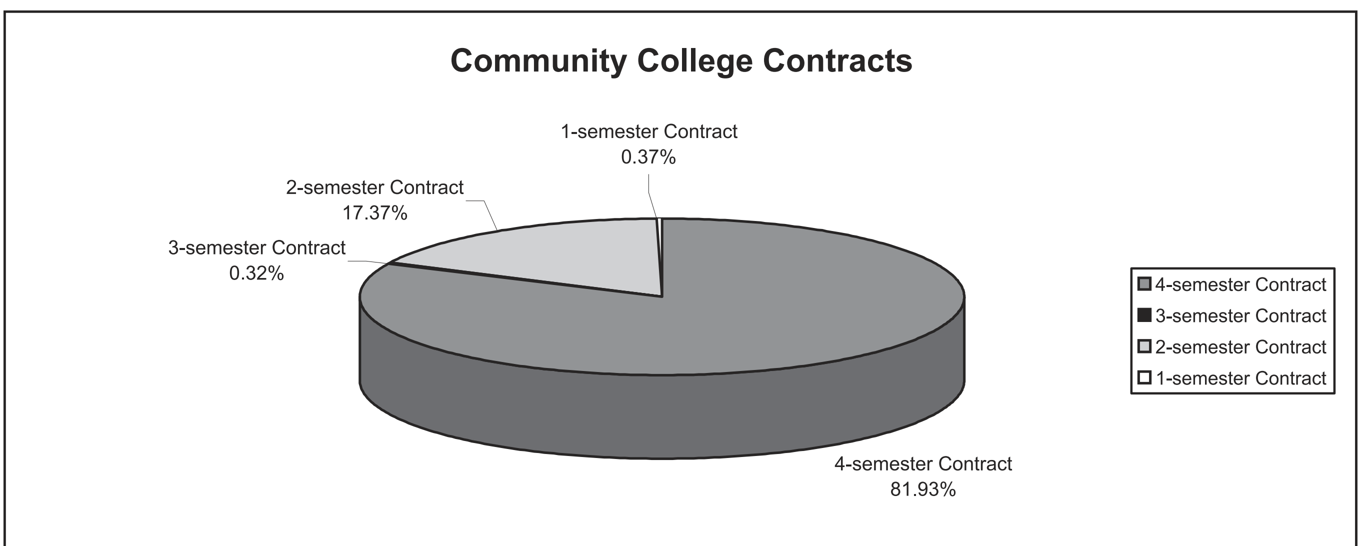

Contracts Purchased
Under Plan D
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
1995
1997
1998
1999
2000
2002
2003
2004
Year
NO. OF CONTRACTS


Contracts by Academic Year
Beneficiary is Expected to Attend College
Under Plan D
No. of Contracts
1800
1600
1400
1200
1000
800
600
400
200
0
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Year
Series1

Years Purchased By Type of Contract
Under Plan D







PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One North Wacker
Chicago, IL 60606
Telephone (312) 298-2000
Facsimile (312) 298-2001

December 21, 2004

Mr. Jay B. Rising
Chairman of the Board of Directors of the
Michigan Education Trust
Department of Treasury
P. O. Box 30198
Lansing, Michigan 48909

Dear Mr. Rising:

PricewaterhouseCoopers LLP (PwC) in conjunction with Richard M. Kaye & Associates has performed an actuarial valuation of Plan D (MET II) of the Michigan Education Trust ("MET II or "the Trust"), at the request of the Trust as of September 30, 2004. The valuation is based on data furnished by MET regarding the contracts submitted during the 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, and 2005 enrollment periods and payments made under those contracts; unaudited financial data provided by MET; the actuarial basis described herein and the contract provisions in effect for the 1995, 1997, 1998, 1999, 2000, 2002, 2003, 2004, and 2005 enrollments.

We have determined that as of September 30, 2004, based on the aforementioned data and assumptions, the market value of Plan D assets was less than the actuarial present value of Plan D benefits by $35,862,579.

The valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the accompanying report have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,

Steven A. Skov, ACAS,MAAA
Principal Consultant
PricewaterhouseCoopers LLP

Richard M. Kaye
Fellow of the Society of Actuaries, CPA
Richard M. Kaye & Associates

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

Mr. Jay B. Rising, Chair
Board of Directors
and
Ms. Robin R. McMillan, Executive Director
Michigan Education Trust
Treasury Building
Lansing, Michigan

Dear Mr. Rising and Ms. McMillan:

We have audited the financial statements of the Michigan Education Trust Plan D, a component unit of the State of Michigan, as of and for the fiscal years ended September 30, 2004 and September 30, 2003, as identified in the table of contents. These financial statements are the responsibility of the Michigan Education Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the Michigan Education Trust Plan D and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2004 and September 30, 2003 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Education Trust Plan D as of September 30, 2004 and September 30, 2003 and the changes in financial position and cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2004 on our consideration of the Michigan Education Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The management's discussion and analysis for the fiscal year ended September 30, 2003 was not presented because this information was presented in the Michigan Education Trust Plan D's prior year's audited financial statements.

Sincerely,

Thomas H. McTavish

Thomas H. McTavish, C.P.A.
Auditor General
December 22, 2004

Management's Discussion and Analysis
Michigan Education Trust
Plan D

This is a discussion and analysis of the financial performance of the Michigan Education Trust (MET) Plan D for the fiscal year ended September 30, 2004. MET is an Internal Revenue Code Section 529 prepaid tuition program and is a component unit of the State of Michigan, administratively located within the Department of Treasury. MET's management is responsible for the financial statements, notes to the financial statements, and this discussion.

Using the Financial Report

This financial report includes the report of independent auditors, management's discussion and analysis, the basic financial statements, and notes to the financial statements.

The financial statements are interrelated and represent the financial status of MET.

The statement of net assets includes the assets, liabilities, and net assets at the end of the fiscal year.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the fiscal year.

The statement of cash flows presents information related to cash inflows and outflows summarized by operating and investing activities.

Analysis of Financial Activities

The MET Board of Directors approves an annual budget and the investment portfolio allocation. The Bureau of Investments, Department of Treasury, under the direction of MET management, is responsible for short-term and long-term investment of MET funds. The MET portfolio for Plan D may be invested up to 30% in equities with the remainder invested in short-term investments, U.S. government securities, and corporate bonds.

MET funds are invested to coincide with the students' expected years of high school graduation. Once students activate their contracts, colleges and universities submit invoices to MET every semester for tuition and mandatory fees. Students have nine years from the expected year of high school graduation to completely use MET contract benefits.

Annually, the actuary determines the actuarial soundness of each MET plan. Key factors used in the soundness analysis are: tuition increases (short-term and long-term), investment performance, and college selection against MET by students and purchasers.

Overall, MET Plan D experienced a 41% decrease in new contract enrollment from the prior year, which decreased the amount of cash received in comparison to fiscal year 2002-03. MET received 2,620 new contracts and approximately $31 million in prepaid tuition amounts during fiscal year 2003-04. In fiscal year 2002-03, MET received 4,462 new contracts and approximately $54 million in prepaid tuition amounts. The reason for the decrease from fiscal year 2002-03 was the shorter enrollment period in fiscal year 2003-04.

Comparison of Current Year and Prior Year Results

Condensed Financial Information
From the Statement of Net Assets
As of September 30
(in thousands)

	2004	2003
Current assets	$ 70,437	$ 59,941
Noncurrent assets	262,177	213,987
Total Assets	$ 332,614	$ 273,927
Current liabilities	$ 5,045	$ 3,274
Noncurrent liabilities	363,431	280,752
Total Liabilities	$ 368,476	$ 284,026
Net Assets – Restricted	$ (35,863)	$ (10,099)
Total Net Assets	$ (35,863)	$ (10,099)

Total net assets decreased by approximately $25.8 million. The net assets decreased primarily because the interest earnings assumption used by the actuary changed from 8.10% to 7.25% and the asset performance was lower than expected. The decrease in net assets was offset somewhat by lower-than-expected tuition and fee increases and longer-than-expected delays by beneficiaries in their usage of contracts.

Current assets increased primarily because of the increase in cash and cash equivalents. Cash and cash equivalents include short-term investments. This line item increased as of September 30, 2004 because some investments matured and the proceeds were not immediately reinvested in the long-term portfolio because of market volatility.

Noncurrent assets increased to reflect an increase in new contract prepaid tuition amounts received in fiscal year 2003-04, which included lump-sum and monthly purchase contracts.

The MET Plan D target portfolio was 70% invested in short-term investments, U.S. government securities, and corporate bonds and 30% invested in equities. The actual portfolio was 71.3% fixed income investments and 28.7% equity.

Current liabilities increased in fiscal year 2003-04. Amounts due to MET Program (Plans B and C) increased primarily because of an increase in marketing and other administrative expenses during fiscal year 2003-04.

Noncurrent liabilities increased in fiscal year 2003-04. The tuition benefits payable increase reflects the changes in the actuarial present value of the future tuition obligation and increases for new contracts issued. Changes in the present value of the future tuition benefit obligation include the changes in the present value discount due to the passage of time, differences between actual experience and the actuarial assumptions utilized, and any changes in actuarial assumptions. Current and noncurrent tuition benefits payable increased to reflect the increase in lump-sum and monthly purchase contracts received and the actuarial present value of future tuition benefit obligations.

Condensed Financial Information
From the Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Year Ended September 30
(in thousands)

	2004	2003
Operating Revenues		
Interest and dividends income	$ 5,674	$ 3,671
Net realized and unrealized appreciation (depreciation) in the fair value of investments	7,900	7,821
Other miscellaneous income	197	283
Total Operating Revenues	$ 13,771	$ 11,775
Operating Expenses		
Salaries and other administrative Expenses	$ 1,056	$ 596
Tuition benefit expense	38,479	8,404
Total Operating Expenses	$ 39,534	$ 9,000
Operating Income (Loss)	$ (25,764)	$ 2,775
Nonoperating Revenues (Expenses)	$ 0	$ 0
Transfers	$ 0	$ 0
Increase (Decrease) in Net Assets	$ (25,764)	$ 2,775
Net assets – Beginning of fiscal year	(10,099)	(12,874)
Net assets – End of fiscal year	$ (35,863)	$ (10,099)

Net realized and unrealized appreciation (depreciation) in the fair value of investments increased primarily because of an increase in market value of investments in equities during the fiscal year and contributed to an overall increase of operating revenues in fiscal year 2003-04.

Salaries and other administrative expenses increased. This increase is attributed to the increase in marketing cost and other administrative expenses.

Tuition benefit expenses increased because of the actuarially determined tuition benefit obligation. The primary reason for the increase related to the updating of actuarial assumptions used by the actuary to calculate the tuition benefit obligation.

The deficit in **net assets – end of fiscal year** increased from the prior fiscal year because actuarial assumptions for future interest earnings decreased from 8.10% in fiscal year 2002-03 to 7.25% in fiscal year 2003-04.

As stated in the actuary's 2004 report, MET Plan D is 90.2% funded and is able to pay benefits through 2020 even if no new contracts are issued.

Condensed Financial Information
From the Statement of Cash Flows
Fiscal Year Ended September 30
(in thousands)

	2004	2003
Cash provided (used) by:		
Operating activities	$ 50,998	$ 64,899
Investing activities	(38,410)	(63,487)
Net increase (decrease) in cash	$ 12,588	$ 1,412
Cash and cash equivalents – Beginning of fiscal year	45,269	43,857
Cash and cash equivalents – End of fiscal year	$ 57,857	$ 45,269

Cash provided by operating activities decreased primarily because of a decrease in contract enrollment in fiscal year 2003-04 from fiscal year 2002-03.

Cash used by investing activities decreased because of the decreased amount of cash available for investment purposes.

The stock market was volatile for the fifth consecutive year, which negatively impacted Plan D. Open enrollment for the year resulted in a 41.7% decrease in prepaid tuition amounts received compared to amounts received in the prior fiscal year. Prepaid tuition receipts translate into an increase in the tuition liability; however, the actuarial soundness of MET is based in part on new contracts being purchased.

Factors Impacting Future Periods

It is expected that Michigan public universities will adopt higher tuition increases next year if State appropriated funds decrease.

MET enrollment for 2004 was held December 15, 2003 through April 15, 2004. The 2005 enrollment began September 1, 2004 and will end June 15, 2005. New enrollments will increase cash, future tuition benefits payable, and the asset base of MET Plan D.

MICHIGAN EDUCATION TRUST PLAN D
Statement of Net Assets
As of September 30

	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 57,857,322	$ 45,268,985
Tuition contracts receivable (Note 4)	11,331,126	13,665,680
Interest and dividends receivable	1,248,907	1,006,187
Total Current Assets	$ 70,437,355	$ 59,940,852
Noncurrent Assets:		
Investments (Note 3)	220,340,083	174,030,438
Tuition contracts receivable (Note 4)	41,836,429	39,956,152
Total Assets	$ 332,613,867	$ 273,927,442
LIABILITIES		
Current Liabilities:		
Amounts due to MET Program (Plans B and C)	$ 1,045,404	$ 574,475
Tuition benefits payable (Note 5)	4,000,000	2,700,000
Total Current Liabilities	$ 5,045,404	$ 3,274,475
Noncurrent Liabilities:		
Tuition benefits payable (Note 5)	363,431,042	280,751,984
Total Liabilities	$ 368,476,446	$ 284,026,459
NET ASSETS		
Net Assets - Restricted	$ (35,862,579)	$ (10,099,017)
Total Net Assets	$ (35,862,579)	$ (10,099,017)

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLAN D
Statement of Revenues, Expenses, and Changes in Net Assets
Fiscal Year Ended September 30

	2004	2003
OPERATING REVENUES		
Interest and dividend income	$ 5,674,231	$ 3,671,497
Net realized and unrealized appreciation (depreciation) in the fair value of investments	7,900,066	7,820,679
Other miscellaneous income	196,536	283,037
Total Operating Revenues	$ 13,770,833	$ 11,775,213
OPERATING EXPENSES		
Salaries and other administrative expenses	$ 1,055,887	$ 596,257
Tuition benefit expenses	38,478,508	8,404,209
Total Operating Expenses	$ 39,534,395	$ 9,000,467
Operating Income (Loss)	$ (25,763,562)	$ 2,774,746
Nonoperating Revenues (Expenses)	$ 0	$ 0
Transfers	$ 0	$ 0
Increase (Decrease) in Net Assets	$ (25,763,562)	$ 2,774,746
Net assets - Beginning of fiscal year	(10,099,017)	(12,873,763)
Net assets - End of fiscal year	$ (35,862,579)	$ (10,099,017)

The accompanying notes are an integral part of the financial statements.

MICHIGAN EDUCATION TRUST PLAN D
Statement of Cash Flows
Fiscal Year Ended September 30

CASH FLOWS FROM OPERATING ACTIVITIES	2004	2003
Contract receipts	$ 49,784,348	$ 65,467,274
Interest and dividends received	5,431,511	2,928,553
Contract payments	(3,829,522)	(3,161,841)
Administrative and other expenses paid	(584,958)	(617,650)
Application and other fees collected	196,536	283,037
Net cash provided (used) from operating activities	$ 50,997,915	$ 64,899,373
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	$ (85,419,869)	$ (102,835,218)
Proceeds from sale and maturities of investment securities	47,010,290	39,348,153
Net cash provided (used) by investing activities	$ (38,409,579)	$ (63,487,064)
Net cash provided (used) - All activities	$ 12,588,336	$ 1,412,309
Cash and Cash Equivalents - Beginning of fiscal year	45,268,985	43,856,676
Cash and cash equivalents - End of fiscal year	$ 57,857,322	$ 45,268,985
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (25,763,562)	$ 2,774,746
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Unrealized and realized (gains) losses	(7,900,066)	(7,820,679)
Changes in assets and liabilities:		
Tuition contracts receivable	454,277	(6,377,659)
Interest and dividends receivable	(242,720)	(742,944)
Amounts due to MET Program (Plans B and C)	470,929	(21,393)
Tuition benefits payable	83,979,058	77,087,301
Net cash provided (used) by operating activities	$ 50,997,915	$ 64,899,373

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 Basis of Presentation and Reporting Entity

a. Basis of Presentation

The financial statements of the Michigan Education Trust (MET) Plan D have been prepared in accordance with generally accepted accounting principles applicable to governments.

b. Reporting Entity

MET was created under Act 316, P.A. 1986 (Sections 390.1421-390.1444 of the *Michigan Compiled Laws*) to operate a prepaid college tuition program. MET is governed by a Board of Directors consisting of 9 members, including 8 public members who are appointed by the Governor with the advice and consent of the Senate and 1 ex-officio member (the State Treasurer, acting as chairperson). MET is administratively located within the Department of Treasury. The State Treasurer, as MET'S agent, may not commingle funds and must maintain a separate bank account for MET. MET is a proprietary component unit of the State of Michigan and is reported as such in the *State of Michigan Comprehensive Annual Financial Report*. The accompanying financial statements present only MET Plan D. Accordingly, they do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows of the State of Michigan or its component units in conformity with generally accepted accounting principles applicable to governments.

Act 316, P.A. 1986, empowers MET, on behalf of itself and the State of Michigan, to enter into a contract with a purchaser which provides that, in return for a specified actuarial determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The purchase amount is based on several factors, including tuition costs, anticipated investment earnings, anticipated tuition rate increases, and the type of contract purchased. MET offers a full benefits contract, a limited benefits contract, and a community college contract. MET's property, income, and operations have been statutorily exempted from all taxation by the State and its political subdivisions. The Act and the contracts specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

As of September 30, 2004, there have been 11 enrollment periods for MET. The 1988, 1989 and 1990 enrollments are known as Plans B and C. The 1995, 1997, 1998, 1999, 2000, 2002, 2003, and 2004 enrollments are known as Plan D. The Plan D enrollments are accounted for and reported separately from the Plans B and C enrollments. This report covers the Plan D enrollments. A separate financial report and actuarial valuation of Plans B and C enrollments are available from the MET office at P.O. Box 30198, Lansing, Michigan 48909.

NOTE 2 Summary of Significant Accounting Policies

a. Measurement Focus and Basis of Accounting

The financial statements contained in this report are prepared using the economic resources measurement focus and the accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Tuition benefit expenses represents accretion of the tuition benefits obligation (see Note 5).

As allowed by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MET follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

b. Assets, Liabilities, and Net Assets

Cash and Cash Equivalents: Cash and cash equivalents reported on the statement of net assets include deposits with financial institutions and short-term investments with original maturities of less than three months used for cash management rather than investing activities.

Cash and Investments: MET's deposits and investments are held in a fiduciary capacity by the State Treasurer. Act 316, P.A. 1986, authorizes the MET Board of Directors to invest MET's assets in any instrument, obligation, security, or property that it considers to be appropriate. The Act also authorizes the pooling of MET's assets with assets of the State, such as the pension funds, for investment purposes.

NOTES TO THE FINANCIAL STATEMENTS

Investments are carried at market value (see Note 3).

Act 316, P.A. 1986, requires all deposits of MET to be secured by obligations of the United States or of the State. The market value of these obligations must at all times be equal to or greater than the amount of the deposits of MET, and all banks and trust companies are authorized to give such security for such deposits.

Tuition Contracts Receivable: The present value of the future monthly purchase contract payments is recorded as a current and noncurrent asset of MET. In fiscal year 2003-04 the discount rate applied to expected future cash flows to determine present value is 7.25%. In fiscal year 2002-03, the discount rate was 8.10%

Liabilities: The actuarial present value of the future tuition obligation is recorded as a current and noncurrent liability of MET (see Note 5).

Net Assets: MET's net assets represent the investment appreciation and the investment revenue in excess of (or less than) the actuarial present value of the future tuition obligation and expenses (see Note 5). Net assets are restricted because of the contractual obligations MET must adhere to on behalf of the purchasers and beneficiaries for which prepaid tuition was collected and invested. The enabling legislation for MET is Act 316, P.A. 1986. Section 17 of the Act indicates that "the assets of the trust shall be preserved, invested, and expended solely pursuant to and for the purposes set forth in this act and shall not be loaned or otherwise transferred or used by the state for any purpose other than the purposes of this act."

NOTE 3 Deposits and Investments

a. General Information

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, requires certain disclosures regarding policies and practices with respect to deposits and investments and the custodial credit risk associated with them.

Deposits: In accordance with GASB Statement No. 3, deposits are classified into three categories of credit risk, as follows:

Category 1: Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3: Uncollateralized, including bank balances that are collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.

Investments: In accordance with GASB Statement No. 3, investments are also classified into three categories of credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity's name.

b. Deposits

At the end of fiscal year 2003-04, the carrying amount of MET's deposits for Plan D was $3,520,693. The deposits were reflected in the accounts of the banks at $3,520,693. The September 30, 2004 balances were covered by federal depository insurance or collateral held with MET's agent in MET's name and, accordingly, classified in GASB credit risk category 1.

At the end of fiscal year 2002-03, the carry amount of MET's deposits for Plan D was $1,915,007. The deposits were reflected in the accounts of the banks at $1,915,007. The September 30, 2003 balances were covered by federal depository insurance or collateral held by MET's agent in MET's name and, accordingly, classified in GASB credit risk category 1.

NOTES TO THE FINANCIAL STATEMENTS

c. Investments

The following table shows the carrying amounts and market values of investments for Plan D by investment type and in total (in millions) at September 30, 2004:

Investments	GASB Credit Risk Category 1	2	3	Not Categorized	Total Carrying Value	Market Value
Commercial paper	$ 54.3	$	$	$	$ 54.3	$ 54.3
Government securities	88.6				88.6	88.6
Corporate bonds and notes	68.6				68.6	68.6
Mutual funds				63.1	63.1	63.1
Total Investments	$ 211.5	$ 0.0	$ 0.0	$ 63.1	$ 274.6	$ 274.6

Less Investments Reported as Cash and Cash Equivalents on Statement of Net Assets	(54.3)
Total Investments Per Statement of Net Assets	$ 220.3
As Reported on the Statement of Net Assets	
Cash and cash equivalents (net of deposits, see Note 3b)	$ 54.3
Noncurrent investments	220.3
Total Investments	$ 274.6

The following table shows the carrying amounts and market values of investments for Plan D by investment type and in total (in millions) at September 30, 2003:

Investments	GASB Credit Risk Category 1	2	3	Not Categorized	Total Carrying Value	Market Value
Commercial paper	$ 43.4	$	$	$	$ 43.4	$ 43.4
Government securities	118.2				118.2	118.2
Corporate bonds and notes	18.2				18.2	18.2
Mutual funds				37.6	37.6	37.6
Total Investments	$ 179.8	$ 0.0	$ 0.0	$ 37.6	$ 217.4	$ 217.4

Less Investments Reported as Cash and Cash Equivalents on Statement of Net Assets	(43.4)
Total Investments Per Statement of Net Assets	$ 174.0
As Reported on the Statement of Net Assets	
Cash and cash equivalents (net of deposits, see Note 3b)	$ 43.4
Noncurrent investments	174.0
Total Investments	$ 217.4

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 **Tuition Contracts Receivable**

The following table summarizes tuition contracts receivable for monthly purchase contracts as of September 30:

	2004	2003
Tuition contracts receivable	$ 64,498,679	$ 67,287,512
Present value discount	(11,331,126)	(13,665,680)
Net tuition contracts receivable	$ 53,167,553	$ 53,621,832

NOTE 5 **Tuition Benefits Payable**

The standardized measurement of the total tuition benefits obligation of MET is the actuarial present value of the future tuition obligation. This valuation method reflects the present value of estimated tuition benefits that will be paid in future years and is adjusted for the effects of projected tuition increases and termination of MET contracts. The following table shows the total tuition benefits obligations of MET as of September 30:

	2004	2003
Market value of net assets, excluding tuition benefits obligation	$ 331,568,463	$ 273,352,967
Present value of future benefits payable and expenses, assuming MET earns 7.25% (8.10% for 2003)	$ 367,431,042	$ 283,451,984
Net assets in excess of tuition benefits obligation	$ (35,862,579)	$ (10,099,017)
Net assets as a percentage of tuition benefits obligation	90%	96%

The most important assumptions used in the actuarial valuations include the following:

(1) For fiscal year 2003-04, the discount rate applied to expected future cash flows to determine present value is 7.25%. For fiscal year 2002-03, the discount rate applied was 8.10%. This discount rate approximates the expected investment yield over the lifetime of the present tuition benefit contracts.

(2) For fiscal year 2003-04, the projected tuition increase is 7.00% compounded annually for the next five years and 7.30% for the balance of the period. The MET Board of Directors continued with a two-tier formula for adjusting the tuition increase assumption. The short-term increase assumption of 7.00% (five years through 2010) was based on an extrapolation of recent experience. The Board also considered the relationship of tuition increases to the consumer price index in determining the long-term tuition increase assumption of 7.30%. The assumptions were unchanged from the fiscal year 2002-03 assumptions.

(3) There was no tax effect from federal income tax.

(4) MET will pay 110% of the MET weighted average tuition in benefits and refunds.

Presented below are the key assumptions used in the actuarial valuations for Plan D:

	Fiscal Years				
	2003-04	2002-03	2001-02	2000-01	1999-2000
Tuition increase	7.00%	7.00%	5.84%	5.71%	5.81%
Tuition increase-long-term	7.30%	7.30%	7.30%	7.30%	7.30%
Present value discount rate	7.25%	8.10%	7.00%	7.00%	6.83%

The following summarizes the tuition benefits payable as of and for the fiscal years ended September 30, 2004 and September 30, 2003:

Balance at October 1, 2002	$ 206,364,683
Expense provision	80,249,142
Payments	(3,161,841)
Balance at September 30, 2003	$ 283,451,984
Expense provision	87,808,580
Payments	(3,829,522)
Balance at September 30, 2004	$ 367,431,042

NOTES TO THE FINANCIAL STATEMENTS

The amounts due within one year for the fiscal years ended September 30, 2004 and September 30, 2003 are $4,000,000 and $2,700,000, respectively. The actuarial assumptions described in this note have a significant impact on the tuition benefit liability. Actual results may differ from the assumptions utilized.

NOTE 6 Tax Status

On November 8, 1994, the U.S. Court of Appeals for the Sixth Circuit ruled that MET is an integral part of the State of Michigan; thus, the investment income realized by MET is not currently subject to federal income tax.

Distributions made in excess of contributions (whether to the refund designee or beneficiary or to a college on behalf of the beneficiary) are taxable income to the refund designee or the beneficiary. After January 1, 2002, these excess distributions are no longer subject to federal income tax if used for qualified higher education expenses. The federal tax exemption is scheduled to expire in 2010.

On August 20, 1996, the Small Business Job Protection Act of 1996 (known as the "1996 Tax Act") was signed into law. The 1996 Tax Act included a provision adding a new section to the Internal Revenue Code of 1986 defining "qualified state tuition programs." A qualified state tuition program is generally exempt from income tax but is subject to unrelated business income tax. MET has no unrelated business income.

In May 1997, MET submitted a request for ruling to the Internal Revenue Service (IRS) for verification that MET is in compliance with the 1996 Tax Act. On December 23, 1997, the IRS issued a favorable ruling, which confirms that MET meets the requirements for exemption from federal income tax as a qualified state tuition program described in Section 529 of the Internal Revenue Code.

NOTE 7 Risk Management

MET participates in the State of Michigan's (primary government) risk management program. The State is self-insured for most general liability and property losses; portions of its employee insurance benefit and bonding programs; and automobile liability, workers' compensation, and unemployment claims. The State Sponsored Group Insurance Fund and Risk Management Fund (internal service funds) have been established by the State to account for these self-insured risk management programs. As a participant, MET recognizes expenses for payments made to the State in a manner similar to purchasing commercial insurance. Charges to finance the self-insured programs are based on estimates of amounts needed to pay prior and current year claims as determined annually by the Department of Management and Budget.

NOTE 8 Pension Plans

MET employees are State classified employees who are covered by the State Employees' Retirement System plans. Detail and data regarding the plan descriptions, accounting policies, vesting and eligibility requirements, actuarial cost methods and assumptions, funding status and requirements, and 10-year historical trend information are provided in the *State of Michigan Comprehensive Annual Financial Report* and the plans' detailed financial reports, issued by the Office of Retirement Services, Department of Management and Budget.

Michigan Department of Treasury
2775 (Rev. 2-05)

Contract Number(s)

Michigan Education Trust Change of Address

It is important that we have correct addresses and phone numbers. Please notify us when a **permanent address** change is made**.** This will enable us to mail the appropriate individual important program information such as tax information used for income tax purposes. The MET contract is a legal document therefore, any changes to the contract must be made in writing to the MET office and mailed (or faxed) to the address listed below. Either the Purchaser, Beneficiary or Appointee must sign this form. If change of address applies to more than one Beneficiary (student), please copy this form and submit a separate form for each Beneficiary (student).

This change of address applies to (check all that apply):

☐ Purchaser ☐ Beneficiary (student) ☐ Appointee

Name	E-mail Address
New Address	Daytime Telephone ( )
City, State, ZIP Code	

The Purchaser's signature is required to change Purchaser address. Purchaser may also sign to change address for a Beneficiary under 18 years of age.	
Purchaser Signature	Date

The Beneficiary must be 18 years of age and can only change his/her address.	
Beneficiary Signature	Date

The Appointee's signature is required to change Appointee's address. Appointee may also sign to change address for a Beneficiary under 18 years of age.	
Appointee Signature	Date

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